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NIC #9760-82
2 December 1982

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

THROUGH: Chairman, National Intelligence Council
Deputy Director for Intelligence

FROM: National Intelligence Officer for Economics
Director, Office of Global Issues

SUBJECT: CIA Efforts on Economic Warning

1. In response to your and Leo Cherne's concern about improved economic warning, several components of the Agency are intensifying their efforts in these areas. All parts of the Agency have a role to play in providing early warning of developments that could do serious harm to US interests and the international economy.

2. Although there are already warning mechanisms in place, Leo Cherne has cited the need for a more systematic monitoring of the early indicators of serious trouble, especially in the financial area. He is also concerned about contingencies which would have serious consequences, but for which the US government might not be prepared.

3. To fill some of these gaps, DCD, DDI, and the NIO for Economics are taking action on economic and financial warning. DCD has increased development of new sources, including chief executive officers of corporations, and intensified source exploitation to identify impending problems in the critical financial area.

4. A major effort is underway in DDI to improve financial warning. DD/OGI has been named as the DDI focal point for coordinating the activities of all DDI offices in international finance. The DDI effort on financial warning will consist of:

- major analytical studies designed to discover emerging or possible future problems;
- establishment of early warning indicators of financial trouble;
- current monitoring of financial development;

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- current financial reporting and analysis, especially by means of the Biweekly Financial Situation Report;
- development of requirements for collectors of financial information.

5. The NIO for Economics is proposing an informal Intelligence Community mechanism, which would concentrate on a few selected issues having important implications for the US and the world economies. The emphasis would be on developments over the next few months which, although plausible, are not considered likely enough to become part of the conventional wisdom. For example: A substantial absolute decline in oil prices; or a threatened moratorium by Brazil on payments of interest on foreign debt. The economic warning process also would assess how such events might occur and what would be their broad economic consequences. International finance, trade, energy, and commodity issues would be considered.

6. To supplement existing intelligence warning mechanisms, the NIO for Economics would meet periodically with knowledgeable representatives from CIA (DDI and DDO), State, Treasury, NSA and Commerce. This informal economic warning group would review major selected issues and alert responsible officials. New insights from this process would feed into the OGI monitoring system. There would be close exchange with the regional NIO warning groups; some of the same issues would be examined, but from the perspective of the international economy.

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8. We have discussed our activities and plans in this area with Leo Cherne in considerable detail. He is strongly supportive and we are taking his suggestions into account (see attachments).

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Maurice C. Ernst

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Attachments

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